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C O N F I D E N T I A L SECTION 01 OF 03 TASHKENT 000771

SIPDIS
DEPT FOR SCA/CEN
DEPT PASS TO USTR CLAUDIO LILIENFELD
AMEMBASSY ASTANA PASS TO USOFFICE ALMATY
AMEMBASSY HELSINKI PASS TO AMCONSUL ST PETERSBURG
AMEMBASSY MOSCOW PASS TO AMCONSUL VLADIVOSTOK
AMEMBASSY MOSCOW PASS TO AMCONSUL YEKATERINBURG

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SUBJECT: UZBEKISTAN: GOU TO DAUSTR LILIENFELD: ROSES FOR A TIFA
CORPSE

CLASSIFIED BY: Robert McCutcheon, Econ Officer, State, Pol/Econ
Office; REASON: 1.4(B), (D)

11. (C) SUMMARY. Deputy Assistant U.S. Trade Representative (DAUSTR) Claudio Lilienfeld visited Tashkent on April 28-29 to discuss U.S.-Uzbek trade relations and the future of the U.S.-Central Asia Trade and Investment Framework Agreement (TIFA). In meetings with GOU officials, the business community, and third country commercial representatives, DAUSTR Lilienfeld heard both the official view of economic and business conditions and the more difficult street-level reality faced by businessmen. On TIFA, First Deputy Prime Minister (FDPM) Azimov gave his blunt assessment that this agreement is a corpse that should not be resuscitated. The GOU clearly prefers to pursue a bilateral trade agenda with the U.S. END SUMMARY

GOU EULOGY FOR TIFA

12. (C) In a meeting lasting over an hour, FDPM Rustam Azimov began by saying that many agreements concluded with the U.S. and other countries have remained agreements on paper only. As to TIFA, he said, "We have almost forgotten about TIFA." Azimov then launched into a long monologue on Uzbek economic achievements under President Karimov, in particular during this time of world economic crisis.

13. (C) On U.S.-Uzbek relations, Azimov said that despite political turbulence, economic relations are developing well. He pointed to General Motors' (GM) joint venture with Uzavtosanoat as a prime example. As to regional dialog, Azimov said that here, too, things are going well. He noted in particular that relations with Tajikistan are improving.

14. (C) On Afghanistan, Azimov pointed to the recent agreement on transit of non-military goods as an illustration of President Karimov's attention to the question of internal stability in Afghanistan. He described Uzbekistan's construction of new power transmission lines to supply electricity to Kabul, boasting that "the people of Kabul know where their electricity comes from."

15. (C) DAUSTR Lilienfeld then explained to Azimov his role in helping to develop new strategies and approaches to Central Asia at USTR. On TIFA, he said his first priority was to explore whether and how to improve the existing TIFA process. Expressing appreciation for Azimov's candor, DAUSTR Lilienfeld remarked that if the five Central Asian presidents are able to reach agreement on water issues, then there is hope for regional cooperation. At the same time, he said that one core objective of his visit was to assess the prospects for bilateral discussions, believing that these could provide a venue for discussing and implementing measures to expand bilateral trade and investment, as well as to address bilateral issues such as GSP utilization, intellectual property rights and other issues that normally comprise the agenda for USTR's bilateral work. He then described a new U.S. initiative to establish Reconstruction Opportunity Zones in Afghanistan with provision for duty-free export to the U.S. and added that these zones could provide opportunities to Uzbek manufacturers and investors.

16. (C) Azimov replied that he understood "the TIFA toy has been thrown on you" and recommended strongly that USTR not try to reinvigorate it as it was originally envisioned. He continued that the original TIFA model had been that of a professor, the U.S., lecturing to his students. "We don't need the U.S. or others to be our arbiters," Azimov said. "We can resolve our issues between ourselves." Azimov added that TIFA's role as a "consultant" was also out of date, particularly insofar as the world economic crisis had proven the intellectual bankruptcy of many former "consultants." "What we need," Azimov said, "is investment, not

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advisors." Azimov continued that the GOU would be interested if TIFA could catalyze investment in the region. He also suggested that TIFA do something for education, noting that not one U.S. university has opened a branch in Uzbekistan. He furthermore expressed strong support for a bilateral U.S.-Uzbek trade dialog.

17. (C) Azimov offered his advice that USTR develop a working strategy and avoid "appealing schemes" that do not work. In particular, he advised the U.S. not to interfere in what it perceives to be trade barriers in Central Asia, even going so far as to say the U.S. would not welcome Uzbek "assistance" in its trade relations with Mexico. "All issues in Central Asia can be resolved only by presidents," Azimov said, "not by government officers like us." Summing up, Azimov told DAUSTR Lilienfeld bluntly, "TIFA is a corpse. Do not try to revive it. What we need is direct foreign investment."

ON A LIGHTER GOU NOTE

18. (SBU) DAUSTR Lilienfeld's other official GOU meetings struck a much milder and more constructive chord. DPM Abdulla Aripov, who heads the Communications and Information Agency of Uzbekistan, described Uzbekistan as the telecommunications link that unites all of Central Asia, and he suggested establishing data hosting centers in Uzbekistan that would be capable of mirroring large international databases. He described his interest in developing information technology capabilities in Uzbekistan and urged that U.S. manufacturers consider setting up operations in the Navoi FIEZ. On intellectual property rights (IPR), said the GOU would welcome any assistance the U.S. can give on IPR issues and in particular wants training for IPR and copyright specialists. He added that the GOU has begun working with Microsoft to improve Uzbek IPR legislation.

¶9. (SBU) DAUSTR Lilienfeld also met with First Deputy Minister Nasriddin Najimov at the Ministry for Foreign Economic Relations and with Fayzulla Mullajanov, Chairman of the Board of the Central Bank. At the latter meeting, after listening to a half hour recitation of Uzbekistan's economic success and successes in the banking sector, DAUSTR Lilienfeld remarked that a major disincentive for U.S. businesses to invest in Uzbekistan is the difficulty with capital convertibility. Expressing surprise that convertibility could be an issue, Mullajanov responded that conversion is done by the commercial banks. He assured us that he would personally look into any convertibility problems if they are brought to his attention in writing.

BUSINESS HOPES AND REALITY

¶10. (SBU) In a long and rambling discussion, Alisher Shaykhov, Chairman of the Uzbek Chamber of Commerce (UzCC), said he liked to separate politics from business and that Uzbek businessmen want to make a profit when and where they can. He repeated Aripov's hopes that foreign computer and electronics manufacturers will set up shop in Navoi, noting that the UzCC will be sending a group to a computer conference in Nevada in May. On trade issues, Shaykhov suggested it is best to "think regionally but act bilaterally" and he added that "general meetings are meaningless." He asked for U.S. assistance in attracting investors and expressed interest in DAUSTR Lilienfeld's suggestion that UzCC put together road shows that would travel to different cities in the U.S. to highlight the capabilities of Uzbek industry and potential for tie-ups with US industry.

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¶11. (SBU) DAUSTR Lilienfeld completed his time in Tashkent by meeting with third country commercial and economic representatives and with members of the American Chamber of Commerce (AmCham). These meetings highlighted the reality of doing business in Uzbekistan, where AmCham members told DAUSTR Lilienfeld that in addition to currency conversion, access to local currency is a major issue. A GM representative elaborated that GM is having difficulty finding soums with which to pay its local workforce for the simple reason that commercial banks do not have cash. Expressing doubt over the Navoi FIEZ, one longstanding AmCham member remarked that this is not Uzbekistan's first attempt to establish a free economic zone. In his words, previous Uzbek attempts to establish such zones in Samarkand and other Uzbek cities in the 1990s all failed.

COMMENT

¶12. (C) If DAUSTR Lilienfeld hoped to learn Uzbek views on revitalizing TIFA, FDPM Azimov minced no words telling him that TIFA is a "corpse." The GOU has no interest in continuing to participate in TIFA in its current form and has expressed its clear preference for a bilateral trade agenda with the U.S.

¶13. (U) DAUSTR Lilienfeld cleared this cable.
NORLAND